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# Doray Minerals (DRM)

## Resource upgrade at Andy Well

**Recommendation**

**Hold** (Spec Buy)

**Price**

**\$1.44**

**Target (12 months)**

**\$1.57** (previously \$1.51)

**Expected Return**

Capital growth **9%**

Dividend yield **0**

Total expected return **9%**

**Company Data & Ratios**

Enterprise value **\$112m**

Market cap **\$128m**

Issued capital **90m**

Free float **65%**

Avg. daily vol. (52wk) **335**

12 month price range **\$0.62 - \$1.65**

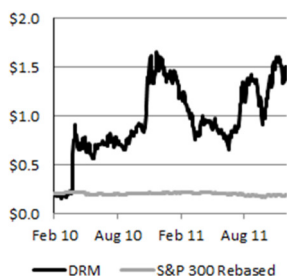
GICS sector

**Materials**

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	1.52	1.36	1.62
Absolute (%)	-1.32	10.29	-7.41
Rel market (%)	-1.09	9.86	-0.01

**Absolute Price**



SOURCE: IRESS

**Increase in-line with our estimate**

DRM has delivered a 90% increase in the high grade Andy Well resource to 0.7Mt grading 15g/t (for 0.33Moz of gold). The previous resource was 0.3Mt grading 17.5g/t (0.174Moz). The update is in-line with our estimate of 0.34Moz.

Andy Well is establishing itself as an unusually high grade resource close to a number of proposed project developments in the Murchison region, WA. These include proposed developments at Mt Magnet (RMS), Moyagee (SLR), Burnakurra (KGL), Meekatharra (RDR) and Cuddingwarra (WGR). We are expecting rationalisation to take place in the Murchison region.

**Andy Well resource expected to continue to grow**

The resource at the Wilber lode remains open at depth. We believe further drilling has the potential to increase resources at the Wilber lode, and at other lodes at the Andy Well project.

**Expect news on Feasibility Study in New Year**

DRM indicates a number of activities in the Andy Well Feasibility Study are progressing on schedule, with an update due early in 2012.

**Investment view – attractive speculative gold play**

We regard DRM as one of the better quality emerging gold producers, with significant upside at the modest, but unusually high grade, Andy Well gold project.

We are increasing our valuation and Target Price to \$1.57 (previously \$1.51). However, we are downgrading our recommendation to Hold in light of the strong run in the share price (which now offers <30% of the return required for a Spec Buy recommendation). We expect to revisit our numbers when the FS is delivered in 2012.

In view of the early stage of development of Andy Well, where a formal Feasibility Study has not been completed to demonstrate economic viability, an investment in DRM remains speculative in nature and more suitable for investors with a high tolerance for risk.

# Investment Summary & Valuation

## Investment Highlights

**Andy Well is high grade (~15g/t);** we believe higher grade projects attract a premium. We highlight that the indicated resource has increased significantly to 0.4Mt grading approximately 20g/t (for 0.25Moz), and should provide a basis for a potential open pit/underground mine development at Andy Well.

**Andy Well still has good growth potential;** the Wilber lode remains open at depth (and down plunge of higher grade shots within the mineralisation). Combined with other high grade lodes (Wilber South and Judy lodes) we expect the overall resource to continue to grow.

**Feasibility Study in progress;** the completion of a positive FS at Andy Well is the next major milestone for the project. DRM indicates an update early in 2012.

## Valuation

We have an updated assessed value of \$1.57, which reflects the resource upgrade and increased value ascribed to DRM's other Murchison region projects at Side Well and Abbots (in light of good recent drilling results).

We continue to expect Andy Well mineralisation to grow to 0.345Moz within 12-months (including the Wilber South and Judy lodes). Our "desk top" review estimates an 85% conversion to an inventory of 0.29Moz.

Our Andy Well project valuation of \$107m is based on the EV per ounce of resources and reserves of emerging gold companies (non-producers) (Figure 1, 2 & Appendix 1).

**Figure 1 - Implied Market Value from peer group EV Multiples**

	Tonnes (.000t)	Grade (g/t Au)	Ounces (.000oz)	EV (\$/oz)	EV (\$M)	Market Value (\$M)*
Andy Well - resource <i>(manual polygonal estimate)</i>	422	25.4	345	161	55	71
Andy Well - inventory <i>conversion to inventory 85%</i>	359	25.4	293	431	126	142
				<b>AVERAGES</b>	<b>91</b>	<b>107</b>

\* Market Value (\$107m) for 100% of Andy Well is determined by adjusting EV (\$91m) for cash (+\$16m).

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Figure 2 - Summary Valuation Table**

Asset	\$M	cps
Andy Well gold project (80% interest)	86	95
Murchison gold projects - nominal	50	56
Gwaler Craton projects - nominal	5	6
Feasibility Study drilling & Corporate OHs	-10	-11
Options	11	12
Debt	0	0
<b>Total</b>	<b>141</b>	<b>157</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

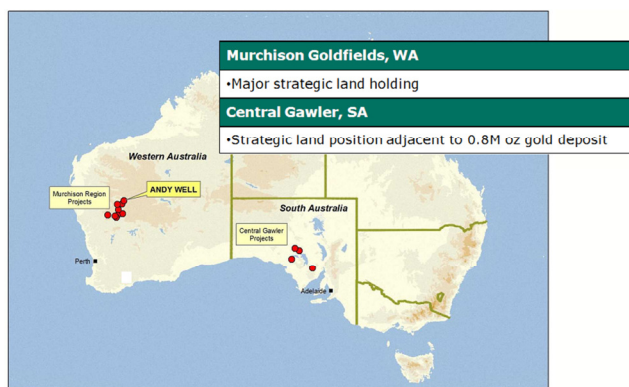
# Andy Well gold project

## Company and projects background

DRM listed on the ASX in February 2010, with a portfolio of projects prospective for gold in the Murchison region of WA, and the Gawler Craton, in South Australia (Figure 3).

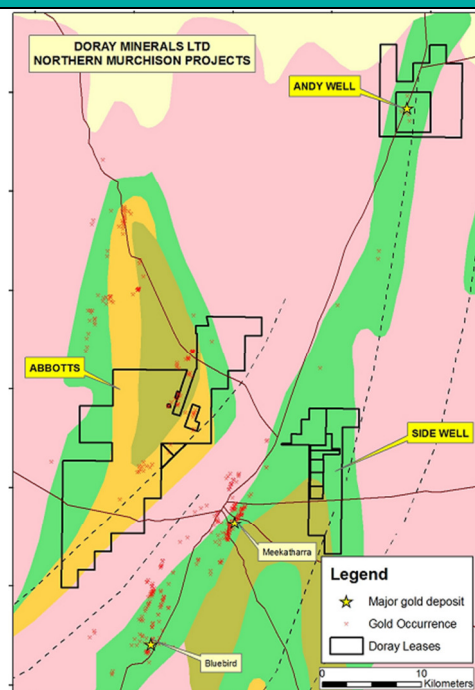
Soon after listing DRM discovered high grade quartz lodes at the Wilber lode at the flagship Andy Well project, 45km north of Meekatharra, in the Murchison region, WA (Figure 4). The Wilber lode is one of several sub-parallel quartz lodes at the project (where the Wilber South and Judy lodes are along strike of the Wilber lode).

Figure 3 - DRM projects portfolio



SOURCE: COMPANY DATA

Figure 4 - Project locations in Murchison region, WA



SOURCE: COMPANY DATA

## Feasibility Study at Andy Well

DRM indicates a number of activities on the Andy Well FS are progressing on schedule, and an update should be provided in early 2012.

We understand from previous company presentations that preliminary metallurgical work indicates high gold recoveries of >97% from a conventional CIL-CIP treatment route. The work indicates a high recovery of gold via gravity circuit (of >85% of gold).

## Ongoing work programs 2012

Proposed work at Andy Well includes diamond drilling of inferred resources (to upgrade to the indicated category), and RC drilling to test for extensions.

# Andy Well gold project

## Updated resource estimate

The updated resource estimate is tabulated below (Figure 5). The Andy Well resource has increased to 0.80Mt grading 12.8g/t (0.33Moz), from the previous estimate of 0.3Mt grading 17.5g/t (0.174Moz).

Figure 5 - Updated Andy Well resource (detail)

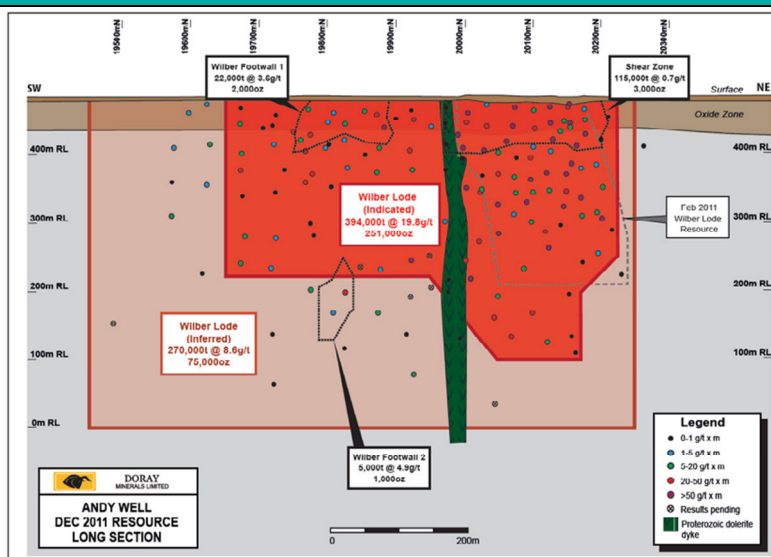
	Indicated			Inferred			Total			Doray 80%
	Tonnes	Grade (g/t)	Ounces	Tonnes	Grade (g/t)	Ounces	Tonnes	Grade (g/t)	Ounces	
Wilber Lode Quartz Vein	394,000	19.8	251,000	270,000	8.6	75,000	664,000	15.2	326,000	260,800
Footwall 1 Quartz Vein				22,000	3.6	2,000	22,000	3.6	2,000	1,600
Footwall 2 Quartz Vein				5,000	4.9	1,000	5,000	4.9	1,000	800
Sub Total for Quartz veins	394,000	19.8	251,000	297,000	8.1	78,000	691,000	14.8	329,000	263,200
Shear Zone	115,000	0.7	3,000				115,000	0.7	3,000	2,400
<b>TOTAL ANDY WELL RESOURCE</b>	<b>509,000</b>	<b>15.5</b>	<b>254,000</b>	<b>297,000</b>	<b>8.1</b>	<b>78,000</b>	<b>806,000</b>	<b>12.8</b>	<b>332,000</b>	<b>265,600</b>

SOURCE: COMPANY DATA

Although the grade of the Wilber lode has decreased to 14.8g/t (from a previous 25.4g/t) the indicated resource (which is that part of the resource available for conversion to reserves in the FS) has increased significantly to 0.39Mt grading 19.8g/t (for 0.25Moz), from a previous 0.13Mt grading 24.1g/t (for 0.10Moz). A total of 43 new diamond drill holes and 25 RC holes provide the basis for the resource upgrade, and have tested the mineralised Wilber shear zone over 600m of strike and down to 480m below surface.

DRM has provided an updated long section of the Wilber lode mineralisation, which highlights the shallow nature of the indicated resource (Figure 6).

Figure 6 - Long section of Wilber lode with grade domains and classification



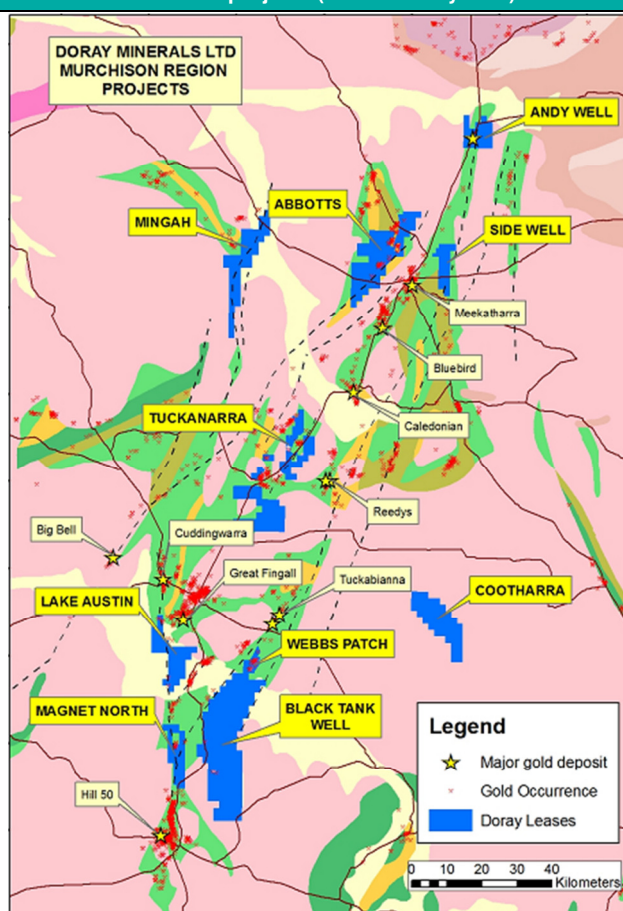
SOURCE: COMPANY DATA

# Murchison portfolio

## Promising exploration results in Murchison region

DRM has had positive exploration results at the Side Well and Abbots projects, in the Murchison region. These are relatively close to the flagship Andy Well project, and would augment resources in the region (Figure 7). DRM's FY12 budget includes 60,000m of exploration and development drilling.

Figure 7 – Location of DRM Murchison projects (outside Andy Well)



SOURCE: COMPANY DATA

### Side Well (DRM 80%)

DRM has delineated two sub-parallel zones of gold mineralisation, with best results including 2m grading 6.9g/t, 11m grading 1.3g/t, 5m grading 6.7g/t and 3m grading 6.9g/t gold. These results justify a program of deeper RC drilling in bedrock beneath these intersections, to be carried out in FY12.

### Abbots (DRM 80%)

Testing of the Abernethy shear zone, which hosts a number of historic gold workings, is providing some promising early results. Work by previous explorers encountered 10m grading 41.8g/t and is being followed up by DRM. Results to date include 1m grading 27g/t and 20m grading 1g/t, within a 100m long RAB anomaly along the Abernethy shear zone.

# Doray Minerals (DRM)

## Investment View

DRM is an Australian exploration company, which has been successful in discovering a modest, but high grade gold deposit at Andy Well, near Meekatharra, in the Murchison region, WA.

Although at an early stage we expect the Andy Well to support a modest open pit and underground mining operation. In addition, we expect DRM to take a prominent role in any rationalisation that takes place among proposed project developments in the Murchison region, being pursued by RMS (Mt Magnet), SLR (Moyagee), Kentor (Burnakurra) and WGR (Cuddingwarra).

RMS has acquired a 7.7% shareholding in DRM (through on market purchases at prices up to \$1.38)

## Valuation

We have an updated assessed value and 12-month Target Price of \$1.57.

## Directors and Management

The board includes MD Allan Kelly (ex-WMC), Technical Director Heath Hellewell (ex-IGO Exploration Manager who was part for the team that discovered the Tropicana gold deposit (being developed with AngloGold). Peter Alexander and Leigh Junk joined the board during 2011. At the Andy Well site is development geologist Mark Cossom (ex-Harmony).

## Shareholders

The Directors hold approximately 17% of shares on issue. The main Institutional shareholder is Quest at 5%, and corporates include Ramelius Resources (RMS) at 7.7%.

## Risks of Investment

**Development and funding risks at Andy Well;** at this early stage no formal Feasibility Study has been carried out to demonstrate economic viability. Should a Feasibility Study provide positive outcomes for project development, the source of funding is unclear at this stage (we estimate project capital requirements of approximately \$60m).

**Leverage to gold prices and AUD:USD exchange rates;** the value of DRM has leverage to movements in these inputs.

# Appendices

Appendix 1 - Enterprise Value (EV) multiples for resources and reserves								
<i>Company</i>	<i>Share Price (\$)</i>	<i>Cap Struct (M sh)</i>	<i>MC (\$M)</i>	<i>adjusted MC* (EV) (\$M)</i>	<i>Attrib Resource (Moz)</i>	<i>Attrib Reserve (Moz)</i>	<i>EV/oz resource (\$/oz)</i>	<i>EV/oz reserve (\$/oz)</i>
Ampella Mining (AMX)	1.82	215	391	348	2.2	0.0	156	0
Ausgold Ltd (AUC)	1.20	206	247	208	0.2	0.0	861	0
Azimuth Resources (AZH)	0.58	370	215	203	0.3	0.0	700	0
Beadell Resources (BDR)	0.73	709	514	455	4.3	1.3	106	364
Castle Minerals (CDT)	0.22	118	26	17	0.2	0.0	109	0
Chalice Gold Mines (CHN)	0.26	256	67	54	0.5	0.5	108	119
Gold Road (GOR)	0.33	331	108	92	1.1	0.0	87	0
Gryphon Minerals (GRY)	1.37	300	411	361	2.0	0.0	184	0
Papillon Resources (PIR)	0.72	282	203	208	0.3	0.0	689	0
Noble Minerals (NMG)	0.59	547	320	317	1.8	0.5	176	634
Perseus Mining Ltd (PRU)	3.14	434	1363	1454	7.9	2.2	184	661
Red 5 (RED)	2.28	128	291	239	1.2	0.7	208	328
Sihayo Gold (SIH)	0.11	721	76	60	1.1	0.4	57	154
Westgold Resources (WGR)	0.19	436	83	64	2.3	0.6	27	104
<b>Weighted average EV per ounce of resource &amp; reserve</b>							<b>161</b>	<b>431</b>
<i>* adjusted market capitalisation (EV) is net of cash, plus debt.</i>								

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Spec Buy:** Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

**Buy:** Expect >15% total return on a 12 month view

**Accumulate:** Expect total return between 5% and 15% on a 12 month view

**Hold:** Expect total return between -5% and 5% on a 12 month view

**Reduce:** Expect total return between -15% and -5% on a 12 month view

**Sell:** Expect <-15% total return on a 12 month view

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